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BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

COMPLETED

ORIGINAL

More--And Better--Audits Needed Of CETA Grant Recipients

Between July 1974 and October 1978, over $26 billion in Federal Comprehensive Employment and Training Act (CETA) funds was spent by about 460 grantees and thousands of subgrantees. Department of Labor regulations require these grantees to be audited at least once every 2 years. But GAO found that some were not yet audited even once as of March 31, 1980.

Those audits which have been performed have not always met the quality standards established by the Comptroller General and required by Labor and OMB regulations. Many CETA audit reports, disclosing weaknesses in internal controls, ineligible participants, and improperly spent funds, were not as effective as they could have been because they were not issued until years after the problems were first experienced. Insufficient audit resources to perform all necessary audits and quality control reviews contributed to the conditions GAO found.

SUMMARY

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COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

MORE--AND BETTER--AUDITS NEEDED OF CETA GRANT RECIPIENTS

D I G E S T

The Department of Labor relies on the audit as a basic tool for preventing unauthorized expenditures and seeing that Comprehensive Employment and Training Act (CETA) programs are carried out as the Congress intended. However, Labor has fallen far short of its goal of auditing all organizations receiving CETA funds every 2 years--some sponsors were not yet audited even once as of March 31, 1980.

Overall, fewer than half the required audits of CETA funds have been performed and the quality of completed audits is uneven. In spite of these quantitative and qualitative problems, Labor has benefited from audits of CETA grant recipients. The audit function could accomplish more if it had additional resources. (See p. 4.)

AUDIT COVERAGE FALLS FAR SHORT OF REQUIREMENTS

Between July 1974 and October 1978, the period covered by GAO's review, over $26 billion in Federal funds was spent by about 460 grantees, called prime sponsors, and thousands of subgrantees to whom prime sponsors allocate a part of their funds. GAO found that despite requirements for biennial audits only 320 of the prime sponsors had been audited as of September 30, 1978.

In one of Labor's 10 geographic regions, only 24 of 105 prime sponsors had been audited during the period covered by this review. Since then Labor reports completing an additional 111 prime sponsor audits nationwide, bringing the total to 431, as of September 30, 1979. (See p. 6.) Labor did not have adequate information on the extent to which subsponsors' funds are being audited.

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For audits of prime sponsors, Labor has not required an analysis of the grantee's controls over funds subgranted or contracted. Although Labor has always had subsponsor audit requirements, such audits are performed separately and are the grantee's responsibility. Thus, if controls are weak at the subsponsor level--where the program is ultimately implemented--the fragmented audit process makes it difficult for Labor to identify and correct such weaknesses.

Labor's difficulty in controlling the whole audit process stems largely from a shortage of staff in the Inspector General's Office and a historical lack of commitment to the audit process on the part of Labor. However, in responding to our draft report, Labor stated that the Office of Audit now has 183 authorized professional positions, an increase of 59 positions since fiscal 1978. (See p. 8.)

AUDITS OF POOR QUALITY

Audits performed did not always conform to required audit standards. Of the 13 audits GAO reviewed, none fully complied with the Comptroller General's Standards for Audit of Governmental Organizations, Programs, Activities, & Functions.

The audit standards require the auditors to exercise due professional care. In one prime sponsor audit performed by an independent public accountant, GAO found that the auditor rendered an improper opinion on the financial statements, made a $576,000 computation error, used a $448,000 unsupported "plug" figure to balance the grantee's cash account, and reported expenditures not supported by the grantee's records. (See pp. 14 and 15.)

While GAO found qualitative deficiencies in the audits reviewed and a general lack of sufficient auditing, the audit function has nevertheless benefited the CETA program. Auditors have recommended that grantees establish better internal controls and better management of cash transactions. (See p. 4.)

RECOMMENDATIONS

GAO recommends that the Secretary of Labor:

--Determine the amount of resources necessary to perform needed audits as soon as it becomes clear what audits the Department will be responsible for under the single audit concept. This concept, which is being implemented by OMB, requires that all grants made to a recipient be audited as a single entity. This determination of resource needs should include both the costs for Labor audit staff and the funds necessary to engage independent public accountants and State or local government auditors.

--Institute more comprehensive quality assurance procedures to ensure that all CETA audits meet required audit standards. The quality testing procedures should be applied to a scientifically selected sample of audits. Further, the tests should be a balanced mix of contract reviews, desk reviews, workpaper reviews, and onsite reviews. The results of such testing would provide a standard against which the quality of all audits being done by Department of Labor auditors, independent accountants, and State and local auditors can be measured.

--Increase the surveillance over prime sponsor audits to make sure that the effectiveness of controls over subgranted or contracted funds is tested.

GAO also recommends that when further CETA appropriations are considered, cognizant congressional committees ask Labor to provide information on the status of efforts to eliminate the audit backlog. (See p. 21.)

AGENCY COMMENTS AND GAO'S EVALUATION

The Department of Labor concurred with GAO's recommendations and has initiated actions which it believes should alleviate some of

the problems. Labor's fiscal 1981 tentative audit plan provides for audits of 60 percent of all prime sponsors--a significant improvement in audit coverage.

Labor plans to improve audit quality control and coordination procedures. Labor has also agreed to increase the surveillance over prime sponsor audits to ensure effective controls over subgranted funds. Labor's response is included as appendix I. (See p. 22.)

Labor said that GAO's review was somewhat bleak with regard to audit coverage since the CETA program was just getting underway in fiscal 1975. However, GAO found that Labor had not completed half the required audits by fiscal 1980. Labor also said that GAO's audit sample was limited and that the audits themselves were old. GAO believes its sample was sufficient to demonstrate significant problems in the quality of CETA audits. In addition, the audits selected were the latest to be issued by the Department at the time of the review.

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ABBREVIATIONS

AICPA	American Institute of Certified Public Accountants
CETA	Comprehensive Employment and Training Act
GAO	General Accounting Office
OMB	Office of Management and Budget